London Transport

Annual Report 2001/02

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Chairman's Statement

London Transport's pivotal role in building on the past to deliver the benefits of a secure and integrated future for transport in our capital city has continued against a background of change.

While change can bring uncertainty, I am pleased to report that London Transport's strategic direction, along with London Underground's operational focus, have remained steady and purposeful during this extended period.

The challenges of change since our last report have, of course, been overshadowed by the terrible events of 11 September in the United States. While the reverberations continue, and the need for appropriate vigilance supported by sophisticated security remains a modern-day reality, we look forward to welcoming our returning visitors from overseas. Overall, trends in customer demand at London Underground continue to rise, putting more strain on the infrastructure, and reinforcing the need for swift and sustained spending. Despite these challenges, we have been pleased to record an increase in the total volume of service, significant improvements in customer service and, most importantly, recognition from those customers of the improvements we have delivered.

We can also report further progress towards the goal of securing sustained investment through the Public Private Partnership (PPP), which has moved towards completion. Since the year end, contracts have been signed with our partners. The Mayor and Transport *for* London (T*f*L) have sought a judicial review of the Public Private Partnership. We look forward to a satisfactory outcome which should allow us to reach financial close later this year. Meanwhile, Her Majesty's Railway Inspectorate has accepted the London Underground Safety Case (version 3.1) for the PPP.

We have continued to work closely with other transport providers and significant advances have been made towards the goal of integration with T*f*L. A splendid example of that integration in action came with preparation for the Queen's Golden Jubilee in June 2002. Elsewhere, we are helping deliver the East London Line Extension and we are now back at work in support of the visionary ambitions of Crossrail.

Completing the PPP and bringing a start to the tangible benefits that will flow from it, together with a seamless integration into T*f*L, remain our twin focuses. The Government has consistently made clear its commitment to the shared goal of transferring London Underground to T*f*L as soon as practical.

That transfer will mark a most significant milestone in the history of transport in London. The Underground network was born amid Victorian optimism 140 years ago; 70 years later, at the half way point in its history to date, London Transport was formed under Lord Ashfield who committed his founding Board to seek to 'carry on the best traditions of its predecessors'. Now, another seven decades on, it is a privilege to thank all those employees and Directors who have worked so hard to live up to those traditions, delivering a performance of which they can all be immensely proud, and which leaves a firm foundation for the future.

Sir Malcolm Bates
Chairman
16 July 2002

Operating and financial review

Principal Activity

The principal activity of the Group during the year was the provision of rail passenger transport services in London.

Overview

For the first time in five years, demand for Underground services fell compared with the previous year. A less buoyant economy together with the effects on leisure travel of last year's foot and mouth outbreak and the tragic events of September 11th combined to reduce the annual number of journeys made by 17 million, or around 1.75%. However, by the end of the year, there were some signs of recovery and growth is expected to resume in 2002/03, albeit at a slower rate than in recent years.

Underground service performance

The volume of service operated rose to a new all-time high of 65.4 million train kilometres, marginally below the Government target, but 2.5% higher than in the previous year. This was largely a result of the major programme of work to improve train service reliability that continued through 2001/02. Recruitment and training of additional train drivers and measures to improve staff availability meant that there was a marked reduction in the number of trains cancelled due to lack of staff, while deployment of staff on busy central London platforms at peak times has helped to reduce delays at stations. The effect has been to increase the percentage of scheduled services operated from 91.6% in 2000/01 to 92.9% this year. Importantly, the in-year trend has been upward with 94.6% of timetabled services operating in the last quarter of the year. Towards the end of the year, the Jubilee line achieved its best performance level since the extension opened in 1999.

The improvements in train service were reflected in excess journey time, which was within the targeted level, and in customers' perceptions. Three of the five customer satisfaction targets set by Government were met in 2001/02.

Investment in the Network

The Public Private Partnership will provide a much-needed and long overdue boost to investment in the ageing Underground network. In the meantime, it is important that an adequate level of essential renewal and replacement of infrastructure and assets is maintained, and during 2001/02 this continued at a broadly comparable level to recent years.

For the first time, the Government set London Underground specific targets for track renewal, station upgrades and escalator refurbishments. All three were achieved, along with the accompanying target for overall project expenditure.

Some £32 million was spent on escalator and lift projects in the year. A total of 31 escalators saw refurbishment or replacement projects completed, representing roundly 10% of the escalator fleet that was in service prior to the opening of the Jubilee Line Extension.

Almost £90 million was spent on station projects. Refurbishment was completed at Collier's Wood, South Wimbledon and Warren Street stations, and substantially completed at Euston Square, Great Portland Street and Upton Park. Russell Square station was redesigned to improve accessibility with more passenger gates, a bigger ticket hall, a new control room and high visibility help points. Improvement schemes continued at Brixton, Earl's Court, Elephant & Castle, Hounslow East, Knightsbridge and Leicester Square, while design work began on a number of station modernisation projects in readiness for implementation under the PPP contracts.

Operating and financial review

Investment in the Network (continued)

A total of £77 million was invested in the continuing track renewal programme and other related track works.

Two major projects associated with the expansion of London's rail network commenced during the year. At King's Cross, the Underground station is being rebuilt to provide passengers with a state-of-the-art transport hub. This will bring much needed improvement to one of London Underground's busiest stations and provide the capacity required to serve the thousands of additional passengers using the Channel Tunnel Rail Link terminal at St Pancras when that is completed later in the decade. Work also began on the northern extension of the East London line, which will link up with the national rail network via four new stations. The extended line will help ease congestion on a number of routes around north east London by bringing new journey opportunities to areas that are currently poorly served by rail.

Customer Service Improvements

London Underground continues to seek ways to reduce unnecessary waiting time for tickets by providing more options for customers to buy tickets without queuing at the ticket office, including an on-line service and improved facilities at stations. By the end of the year, over 50 "Queuebuster" ticket machines had been installed at the busiest stations on the network. These passenger-operated machines accept debit/credit card payment and sell a range of popular tickets including, for the first time, 7-day tickets. Good usage is being recorded and plans for further installations during 2002/03 are well advanced. We have also sought to encourage greater use of existing passenger-operated machines by reducing the amount of time that they spend in 'exact money only' mode when they are unable to give customers change. A further recent development in this area has been the trial installation of separate change-giving machines at Liverpool Street, Victoria and Heathrow Terminals 1,2,3 stations.

We have continued to develop our award-winning website 'thetube.com' so as to enhance its usefulness to customers. The site was redesigned at the beginning of the year and new features added subsequently include a five-language guide for visitors, a guide to tube station car parks, first and last train timetables and performance data. On average, around 14,000 users per day currently visit the site.

At stations, new local information displays have attracted widespread praise for striking a balance between clear display and comprehensive information. They have earned London Underground the award for Integrated Transport Information at the international transport conference Interchange 2002 and a 'highly commended' certificate in the 'innovations in customer service' category of the Railway Forum/Modern Railway Awards. Customers have also benefited from faster response times and local rate call charges following introduction in January of a new telephone system for London Underground's Customer Service Centre.

Integration

A number of initiatives to improve integration of transport in London are in progress, many in collaboration with other transport providers and local authorities. At Vauxhall and Walthamstow Central, planning is underway with TfL and National Railways to improve interchange between the two modes and with buses. The Crossrail scheme now being taken forward by TfL and the SRA will impact a number of Underground stations such as Tottenham Court Road and work is progressing on the design of an integrated scheme. In association with plans for the northern extension of the East London Line, schemes are being jointly developed with SRA, TfL and Railtrack for Finsbury Park and Highbury & Islington, to relieve congestion and give better accessibility and interchange between all modes.

Operating and financial review

Integration (continued)

At main line termini, Railtrack plans for Paddington and Euston are being matched by London Underground proposals to remodel ticket halls for better capacity and accessibility. Work at King's Cross St Pancras is well underway on redevelopment of the station to relieve congestion, improve accessibility and ensure sufficient capacity to meet the forecast demand of the Channel Tunnel Rail Link. A feasibility study has commenced on the Victoria Transport Interchange; the work is being managed by London Underground but jointly funded with TfL with the backing of several stakeholders including Railtrack and the GLA. A study is investigating various options for improving integration between modes and improving the pedestrian environment around Victoria Station as well as providing congestion relief.

Passengers with disabilities

Major works are in progress to provide step free access facilities at eight stations - Fulham Broadway, Kilburn, Hounslow East and West Ham due to be completed in 2002/03; and Brixton, Earl's Court, East Ham and Kings Cross to follow in later years. Work has also commenced at Harrow & Wealdstone, which is owned by Railtrack and operated by Silverlink, due for completion in 2002/03.

The Tube Access Guide was launched in February, in conjunction with the charity Scope and TfL. The guide is designed to help anyone who finds stairs or escalators difficult and includes a large print map of the Underground showing all stations with step-free access facilities and interchanges. It is available in leaflet racks at all Underground stations and on thetube.com website.

The London Underground Board approved 'Unlocking London for all', its strategy for making the network more accessible over the next twenty years and how this will be achieved. This document is shortly to be formally published and circulated to interested parties as well as the general public.

Employee Involvement

The Group has formally recognised over 1,200 staff for exceptional customer service or support of colleagues in meeting our aims through the 'Thanks to You' scheme.

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Operating and financial review

Employee Communications

This year, an Intranet strategy has been agreed and an Intranet Webmaster role has been created to develop and rationalise the structure of the Intranet to make it more consistent in look and feel, and easier to navigate, thus encouraging greater use as a core business, knowledge management and communications tool. Employee involvement and support is being assured through publisher and user networks, the first of which have recently been held.

Front line staff do not have access to the Intranet, nor to PCs, and actions to improve the quality and impact of communication with this group have included increased use of topic specific four-page colour newsletters and posters, linked to the formal Teamtalk communications cascade. The use of colour, photographs and graphics is aimed at heightening the impact of important business activities, by making the information livelier and more accessible.

Managers in Stations and Trains can all now access the PC network, so further work to improve the speed and reach of information is underway. A pilot scheme to distribute Teamtalk slides via e-mail rather than distributed print matter will, if successful, mean Managers receive information at least three days faster, which makes it fresher and more topical, particularly the Company Performance information.

The views of employees on company performance as an employer and provider of services to customers were sought through an employee survey, conducted in October 2001. The findings will be communicated to all staff.

Equality

London Transport aims to treat all its employees and applicants for jobs fairly, and ensure that unfair discrimination does not occur at any stage of employment on any grounds, including: age, sex, race, ethnic or national origin, disability, religion, sexual orientation, marital or HIV status.

London Transport aims to promote equality by:

- Communicating the policy to all employees, agents, contractors, and job applicants.
- Developing and monitoring progress against equality targets.
- Dealing promptly with any complaints or grievances.
- Providing equality-related training and development.
- Reviewing the impact on equality of other employment policies and practices.

London Underground was presented with the award to the public sector for its Ending Harassment Programme at the Opportunity Now Awards Ceremony in May 2002.

Operating and financial review

Financial performance

London Underground Limited revenues suffered from the impact of both the foot and mouth outbreak and the tragic events of September 11th. This has meant that revenue fell a little short of expectations at £1,252.8 million (2000/01 - £1,223.1 million).

The cost of operations was generally in line with the London Underground Limited's business plan, reflecting increased levels of expenditure on maintaining the infrastructure ahead of the PPP, backed by a substantial increase in grant from the Government. There was also an increase in operational staff to provide a more reliable train service and improved customer service at stations. This has contributed to an increase in unit cost to £21.0 per train kilometre operated.

The gross operating margin was a loss of £120.1 million (2000/01 profit of £50.3 million).

Post Balance Sheet Events

On 8 May 2002, London Underground Limited signed Share Purchase Agreements to transfer the ownership of its Infraco subsidiaries. Completion of this transfer is dependent on certain conditions being met, including approval by HMRI of the Safety Case (version 3.1), which was received on 10 July 2002. Consideration will also be given to the outcome of the judicial review sought by the Mayor and Transport *for* London.

Corporate governance

London Transport consults with Government on policy and holds regular meetings to review policy and performance. As far as it is appropriate for nationalised industries to do so, it complies with provisions of the Combined Code.

Statements on corporate governance and on the Corporation's responsibilities are on page 9. Disclosure of Board members' emoluments is on page 23.

Payment of suppliers

London Transport supports the Government's view that large corporations should act responsibly by paying invoices promptly. Appropriate terms and conditions, which range from standard terms and conditions to those individually negotiated for large civil contracts, are agreed with suppliers. Payment is normally made in accordance with the agreed terms, providing the supplier has also complied with these terms (see Note 27 to the accounts).

Board members

as at 31 March 2002

London Regional Transport Board

Non-executive Chairman
Sir Malcolm Bates

Non-executive members
Mr B Appleton
Ms K Bahl
Mr D A Higgs
Mr E A Wallis

Ms F Low (Secretary)

The members of the London Regional Transport Board are appointed by the Secretary of State who determines their terms and conditions. Sir Malcolm Bates served as Chairman until 8 May 2001 and from 17 July 2001. Mr R Kiley served as Chairman from 8 May 2001 to 17 July 2001. Mr D V Smith served as an executive director until 19 December 2001. Mr D Newlands resigned on 8 May 2001.

Direction given by the Secretary of State

The Secretary of State for Transport, Local Government and the Regions ("the Secretary of State"), with the approval of the Treasury and after consultation with London Regional Transport, in pursuance of Section 23 of the London Regional Transport Act 1984, hereby gives the following Direction:

1 The annual accounts, which it is the duty of London Regional Transport ("the Corporation") to prepare shall, in respect of the year ended 31 March 2001 and subsequent years, save as described in Schedule 1, comply with:

i) the accounting and disclosure requirements of Companies Act 1985 currently in force;
ii) the accounts disclosure requirements of paragraph 43 of chapter 12 of the FSA listing rules; and
iii) generally accepted accounting practice in the United Kingdom (UK GAAP).

2 The annual accounts shall include the information set out in Schedule 2 to this Direction.

3 The Direction shall be reproduced in the annual accounts.

Ewan West
Signed by authority of the Secretary of State on 8 February 2001.
A Senior Civil Servant in the Department of Transport, Local Government and the Regions.

Schedule 1

1 The annual accounts referred to in paragraph 1 of the Direction will be prepared under Companies Act 1985 alternative accounting rules. The following accounting policies will be adopted:

i) the carrying value of investments should be at their historical cost; and
ii) the vested capital shall be reduced for the net assets vested in Transport for London.

2 The Profit and loss account shall be prepared in accordance with format 1 prescribed in the Companies Act 1985 and shall show the operating loss before grants.

3 The Balance sheet shall:

i) be prepared in accordance with format 1 prescribed in the Companies Act 1985;
ii) show Corporate capital and reserves on the face of the Balance sheet; and
iii) present items A to J in format 1 so as to show the total of those items as "Net assets" separately from the totals of item K, i.e. "Capital and reserves".

Schedule 2

1 The supplementary information to the accounts shall include summarised Profit and loss accounts and Balance sheets of the Corporation's directly held major subsidiaries and a statement of the unit costs of the main operating subsidiaries.

2 The Notes to the accounts shall include:

i) an analysis of sales revenue and profit or loss before grants over the principal activities; and
ii) a statement of the Corporation's performance against external finance and other limits set by the Secretary of State.

Corporate governance

Corporate governance is concerned with how companies are directed and controlled, and in particular with the role of the Board of Directors and the need to ensure a framework of effective accountability. London Regional Transport (LT) is a statutory corporation reporting to the Secretary of State. This statement explains how the Corporation has applied, throughout the year ended 31 March 2002, the principles set out in the Combined Code issued by the London Stock Exchange which the Secretary of State has directed the LT Board to follow.

The LT Board

At 31 March 2002 the LT Board consists of five members, all of whom are non-executive and independent of management. The roles of the board members are structured in such a manner as to ensure that no one individual or group dominates the LT Board's decision making process. The LT Board met monthly in 2001/02 and focused on strategy formulation, policy and control. A high-level delegation authority was in place which describes the delegation of authority below LT Board level as well as specifying those issues which remain within the LT Board's preserve. At each scheduled meeting of the LT Board, the LUL Managing Director reports on the Corporation's operations and the LUL Director of Finance reports on its financial position. In addition, the LT Board has adopted standard procedures and practices whereby key tasks affecting the Corporation are reviewed on a regular basis. The LT Board is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties effectively.

The Chairman of the Corporation is responsible for the running of the LT Board. The LT Board is responsible to the Secretary of State for the direction and control of the Corporation. The LUL Managing Director is responsible to the LT Board for management of the Corporation within parameters set by the LT Board, and is assisted in managing the business on a day to day basis by the London Underground Board. The LUL Board is chaired by an LT Board member and comprises the LUL Executive Directors and an LT Board member who has a special interest in safety and environment matters and met mostly twice a month in 2001/02. The LT Chairman and the LUL Managing Director, have regular meetings with ministers and officials. These meetings cover strategic and operational issues, including achievement of performance objectives.

LT Board members are appointed by the Secretary of State, who determines their terms and conditions of employment including their remuneration, as set out on page 23. All board members have access to the advice and services of the Secretary and Legal Director and the LT Board has established a procedure whereby board members, wishing to do so in the furtherance of their duties, may take independent professional advice at the Corporation's expense.

LT Board Committees

The LT Board and its principal subsidiary, London Underground Limited (LUL), maintain a number of committees, all of which operate within written terms of reference, and reports on their meetings are submitted regularly to the LUL and LT Boards. These include the following committees.

Corporate governance

Remuneration Committee

The Remuneration Committee is chaired by the LT Chairman and met five times in 2001/02. Its principal function is to review the remuneration structures, succession planning and retention arrangements for key staff on behalf of the LT Board in relation to LUL's Executive Directors and senior management. It also determines the remuneration packages of individual LUL Executive Directors having regard to individual responsibility and performance. The minutes of the meetings are circulated to all LT Board Members and are included in the quarterly report of decisions made by committees below LT Board Level. The LT Board accepted the recommendations of the committee throughout the year without amendment.

Audit Committee

Mr D Newlands resigned as an LT Board member and Chairman of the Audit Committee on 8 May 2001. He was replaced, as Chairman, by Mr D Higgs at the next meeting which was held on 19 July 2001 as part of the LT Board meeting. The Audit Committee comprises three members (including the Chairman of the Audit Committee) and met four times in 2001/02. Its prime tasks are to review the scope and performance of external and internal audit, to receive regular reports from the external auditors, KPMG, and the Head of Audit, and to review the Annual Report before it is presented to the LT Board. The Audit Committee conducted an annual review of the remit of the internal audit function, its authority and resources and how the external auditors demonstrate independence and manage conflicts of interest. The Audit Committee acts as a forum for discussion of risk, internal control and assurance issues and contributes to the LT Board's review of the effectiveness of the Company's internal control and risk management systems and processes. Membership of the Audit Committee is restricted to LT Board members.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee is chaired by the LUL Managing Director and comprises ten members, including Mr B Appleton, LT Vice Chairman and LT Board member with a special interest in safety and environment matters. The Committee is responsible for ensuring the Corporation's obligations for health, safety and environment issues are met and trends and actions arising from reports from enforcing authorities and investigations into serious incidents have been addressed. The Committee met monthly in 2001/02 and receives quarterly reports on safety performance and half yearly compliance reports on the Health Safety and Environment Management System and Railway Safety Case from a separate safety audit function which reports to the Director of Safety, Quality and Environment.

The LUL Managing Director reports to the LT Board on a six-monthly basis on safety performance, the safety improvement programme, other safety issues and on specific health, and environment issues as and when necessary. The Railway Safety Case contains an analysis of the risks, controls, mitigating actions and responsible managers. It also includes an assessment of why the residual risks are acceptable. The Railway Safety Case, version 3, has been approved by the LUL Board and accepted by the Health and Safety Executive, an independent Government body. The Committee also receives an annual report on the changing network safety risks over the year. A Safety Review Group chaired by the Director of Safety, Quality and Environment, reviews the acceptability of the changes in safety risk arising from ongoing changes within the business and to ensure that, where changes are material, they are reflected in LUL's statutory Railway Safety Case.

Corporate governance

Risk and Control Committee

The LT Board is committed to the objective of achieving high standards of corporate governance and internal control. The Risk and Control Committee (RACC) has the principal role of overseeing the effectiveness of the Corporation's system of internal control, covering all types of business risk and control. This includes the maintenance of a systematic process for the identification and management of business risk throughout the Corporation. RACC is chaired by the Director of Safety, Quality and Environment and comprises six LUL Executive Directors and the Secretary and Legal Director.

This Committee, which met eleven times during the year, reports quarterly to the LUL and LT Boards on business risk, control and assurance issues and has reviewed the effectiveness of the Corporation's internal controls. Management reports regularly to the Committee on how the significant risks including safety, security and legal compliance, are managed and controlled. These reports have provided the means by which the Committee monitors the actions taken by management to maintain controls and further embed a risk based system of control. The Committee has challenged the significance of the risks and effectiveness of the controls and assurance processes being maintained to ensure management action is focused on controlling safety risks as low as reasonably practicable and business risks to an agreed residual level.

Internal control

The LT Board is responsible for ensuring that the Corporation maintains an effective system of internal control, including suitable monitoring procedures and for reviewing its effectiveness throughout the Corporation. However, it is important to note that the size and complexity of the Corporation's operations mean that such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

The system of internal control is to enable the Corporation to achieve its corporate objectives within a risk management framework, not to eliminate risk. The LUL Board has established statements on control which should ensure that all significant business activities are covered by internal control and assurance frameworks. The three infrastructure companies (Infracos) have self contained corporate governance frameworks. Under these frameworks and statements, management is responsible for defining, operating, monitoring and reporting on risk management, control and assurance processes.

The LT Board confirms that an ongoing process for identifying, evaluating and managing the Corporation's significant risks has operated throughout the year and up to the date of approval of the Annual Report. This process has been subject to regular review by the LT Board and accords with the guidance contained in 'Internal Control – Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales in September 1999.

The key elements of this process include:

i) All significant risks and the effectiveness of the related controls and assurance processes contained in the LUL Risk Register are reviewed on an ongoing basis during the year by RACC, on behalf of the LT Board, as described in the 'LT Board' section above. The LUL and LT Boards review the quarterly reports from RACC.

Corporate governance

Internal control (continued)

ii) Health, safety and environment risks are also considered on behalf of the LUL Board by the Health, Safety and Environment Committee as described in the 'LT Board' section above. The LT Board receives half-yearly reports on health, safety and environment issues from the LUL Managing Director.

iii) The LUL Executive Directors, as risk owners, are responsible for managing the risks assigned to them in the LUL Risk Register across the business and for embedding risk management, control and assurance processes throughout their directorates. They are responsible for agreeing the appropriate level of residual risk after the application of risk reduction methods. Risk owners are assisted by Key Risk Representatives (KRRs) in identifying, assessing, controlling, monitoring and reporting upon the risks that are assigned to them for managing, and KRRs are responsible for dealing with cross directorate business linkages. All risk owners have established local risk registers that are linked to the LUL Risk Register. These local registers are reviewed by local management as part of their regular review of the business unit action plans.

iv) Each of the Infracos has established risk registers and identified senior managers as risk owners to manage the risks which are assigned to them in these registers. The Infraco Managing Directors are responsible for embedding risk management, control and assurance processes throughout their Infraco and for agreeing the appropriate level of residual risk after the application of risk reduction methods.

v) A Policy Review Group has been established to provide below standing orders a defined hierarchy of control documentation comprising policies, standards, procedures and work instructions. These detail the responsibilities, authorisation levels and segregation of duties across all activities. The group have developed a coherent suite of risk based policies which were approved in January 2002.

vi) In addition to the reporting under the Statements on Control, as described in the 'Internal Control' section, management is also responsible for detailed four-weekly reporting of performance, trading results, balance sheets and cash flows, with regular review by management of variance in support of the overall risk management process. Also, each of the Infraco Managing Directors reports to the LT Board every six months on their achievements, performance and plans.

vii) Quarterly and annual reports to RACC and the LUL and LT Boards on legal compliance – breaches, financial losses, propriety and regulatory compliance.

viii) Annual Certificates of Compliance, signed by each LUL Director and Infraco Managing Director, setting out how they have effectively complied with, respectively, the LUL Statements on Control and the Infraco Corporate Governance Frameworks throughout the year.

The Board recognises that an effective approach to risk management requires continued review and development of related processes to provide for a documented and auditable trail of accountability. These are relevant across all of the Corporation's operations and provide for successive assurances to be given at increasingly higher levels of management and finally to the LT Board. As part of this ongoing activity, control self-assurance and hierarchical reporting processes are progressively being introduced at all levels of risk and for all control activities in support of those that have been maintained over the significant risks throughout the year.

Corporate governance

Annual Review of the effectiveness of Internal Control

The LT Board has established a process for reviewing the effectiveness of the system of internal control through reports it, and the Board Committees, receive from Risk Owners. The Audit Committee, as described above, makes an important contribution to this assurance process. Internal Audit provides independent assurance that the processes by which significant risks are identified, assessed and managed are appropriate and effective. RACC, on behalf of the LT Board, undertook a formal annual assessment of the risk management and control arrangements on 24 April 2002 in order to form a view on the overall effectiveness of the system of internal control.

The Corporation's responsibilities for the accounts

London Transport is required by the Direction given by the Secretary of State, which is set out on page 8, to prepare accounts which give a true and fair view of the profit or loss, cash flow and the state of affairs of the Corporation and its subsidiaries in respect of each accounting year. The LT Board approves suitable accounting policies, ensures they are applied consistently, and makes judgements and estimates that are reasonable and prudent.

The LT Board is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Corporation and which enable it to ensure that the financial statements comply with the Companies Act 1985, save as directed. It is also responsible for taking reasonable actions to safeguard the assets of the Corporation and its subsidiaries and to prevent and detect fraud and other irregularities.

Going concern

The LT Board confirm that they are satisfied that the Corporation has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Independent auditors' report

Independent auditors' report to the Secretary of State for Transport on the accounts of London Regional Transport

We have audited the accounts on pages 15 to 35.

Respective responsibilities of Board members and auditors
As described on page 13, the Board members are responsible for exercising the Corporation's responsibility for the preparation of accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with section 23 of the London Regional Transport Act 1984 and the Direction dated 10 April 2002 given by the Secretary of State for Transport, Local Government and the Regions to the Board members of London Regional Transport. We also report to you if, in our opinion, the other information accompanying the accounts is not consistent with these accounts, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Board members' remuneration and transactions with the Group is not disclosed.

We read the other information accompanying the accounts and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Board members in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the Corporation and the Group as at 31 March 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with section 23 of the London Regional Transport Act 1984 and the Direction dated 10 April 2002 given by the Secretary of State of Transport, Local Government and the Regions to the Board members of London Transport.

KPMG
Chartered Accountants
Registered Auditors
16 July 2002

PROFIT AND LOSS ACCOUNT

year ended 31 March	*Note*	**2002 £m**	2001 £m
Sales revenue			
Continuing operations	2	**1,252.8**	1,223.1
Discontinued operations	2	**-**	107.9
Sales revenue	2	**1,252.8**	1,331.0
Cost of operations before depreciation and grants	3a	**(1,372.9)**	(1,280.7)
Gross operating margin before depreciation and grants		**(120.1)**	50.3
Depreciation	9a	**(343.6)**	(343.7)
Operating loss before grants			
Continuing operations	2	**(463.7)**	(267.6)
Discontinued operations	2	**-**	(25.8)
		(463.7)	(293.4)
Grants taken to the Profit and loss account	7c	**355.1**	253.0
Operating loss after grants		**(108.6)**	(40.4)
(Loss)/profit on disposal of assets	8	**(17.5)**	20.5
Loss on transfer of subsidiary companies		**-**	-
Loss before taxation	4	**(126.1)**	(24.4)
Taxation	21	**-**	-
Loss for the year		**(126.1)**	(24.4)
Realisation of accumulated revaluation surplus	18	**60.7**	84.4
Transfer from /(to) capital reserve	18	**65.4**	(59.9)
Retained profit for the year		**-**	0.1

BALANCE SHEETS

at 31 March	*Note*	Group **2002** **£m**	Group 2001 £m	Corporation **2002** **£m**	Corporation 2001 £m
Fixed assets					
Tangible fixed assets	9	**8,673.9**	8,746.3	**-**	-
Investment in subsidiaries	10	**-**	-	**466.1**	466.1
Total fixed assets		**8,673.9**	8,746.3	**466.1**	466.1
Current assets					
Stocks	11	**19.2**	19.9	**-**	-
Debtors	12	**220.9**	186.4	**111.2**	111.5
Cash at bank and in hand	13	**18.2**	13.4	**0.1**	0.2
Total current assets		**258.3**	219.7	**111.3**	111.7
Creditors: amounts falling due within one year	14	**(578.8)**	(569.3)	**(0.2)**	-
Bank overdraft	14	**(18.1)**	(13.3)	**(0.1)**	(0.2)
Total creditors falling due within one year		**(596.9)**	(582.6)	**(0.3)**	(0.2)
Net current assets/(liabilities)		**(338.6)**	(362.9)	**111.0**	111.5
Total assets less current liabilities		**8,335.3**	8,383.4	**577.1**	577.6
Creditors: amounts falling due after more than one year	15	**(23.2)**	(11.9)	**-**	-
Provisions for liabilities and charges	17	**(166.8)**	(77.4)	**(23.1)**	(23.6)
Deferred grants	16	**(5,329.7)**	(5,370.4)	**-**	-
Net assets		**2,815.6**	2,923.7	**554.0**	554.0
Capital and reserves					
Corporate capital and reserves		**2,802.0**	2,910.1	**548.7**	548.7
Profit and loss account		**13.6**	13.6	**5.3**	5.3
Total capital employed	18	**2,815.6**	2,923.7	**554.0**	554.0

These accounts were approved by the Board on 16 July 2002 and signed on its behalf by

Sir Malcolm Bates
Chairman

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

year ended 31 March	*Note*	**2002 £ m**	2001 £ m
Loss for the year		**(126.1)**	(24.4)
Revaluation of tangible fixed assets	9a	**18.0**	48.4
Reclassification of Capital grant and Capital reserve as Deferred grant		**-**	(5,508.9)
Total recognised losses for the year		**(108.1)**	(5,484.9)

NOTE OF GROUP HISTORICAL COST PROFITS AND LOSSES

year ended 31 March	*Note*	**2002 £ m**	2001 £ m
Loss for the year		**(126.1)**	(24.4)
Difference between historical cost depreciation and actual depreciation charge included in the Group Profit and loss account		**49.4**	27.3
Realisation of the accumulated revaluation surplus on properties sold during the year		**11.3**	52.6
Realisation of the accumulated revaluation surplus on the assets of subsidiary companies transferred during the year		**-**	4.5
Realisation of the accumulated revaluation surplus	18	**60.7**	84.4
Historical cost (loss)/profit for the year		**(65.4)**	60.0

GROUP CASH FLOW STATEMENT

Reconciliation of operating loss to net cash inflow from operating activities

year ended 31 March	*Note*	**2002 £m**	2001 £m
Total operating loss before grants per Profit and loss account		**(463.7)**	(293.4)
Depreciation	9a	**343.6**	343.7
Decrease/(increase) in stocks		**0.7**	(4.4)
(Decrease) in debtors		**(10.0)**	(48.2)
Increase in creditors due within one year		**71.3**	53.4
Increase/(decrease) in creditors due after more than one year		**2.3**	(3.7)
Increase in provisions for liabilities and charges		**5.4**	10.6
Transfer of subsidiary companies		**-**	18.4
Net cash inflow from operating activities	25	**(50.4)**	76.4

Group cash flow statement

year ended 31 March	*Note*	**2002 £m**	2001 £m
Net cash (outflow)/inflow from operating activities		**(50.4)**	76.4
Capital expenditure and disposals			
Capital expenditure	25	**(478.5)**	(441.9)
Receipts from sale of fixed assets	25	**2.2**	123.4
Receipts in advance	25	**18.8**	-
Transfer of subsidiary companies		**-**	(44.9)
Net cash outflow from capital expenditure and disposals		**(457.5)**	(363.4)
Net cash outflow		**(507.9)**	(287.0)
Financing and management of liquid resources			
Government grant	7a	**483.0**	315.2
Grant disbursements	7b	**(23.5)**	(39.7)
Contributions from third parties for capital expenditure	25	**48.4**	2.2
Short-term deposits	26	**-**	9.2
Net cash inflow		**507.9**	286.9
Decrease in cash	26	**-**	(0.1)

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

a) Form and content of accounts

The accounts of London Transport (the "Corporation") and its subsidiaries (the "Group") are prepared in form and content in accordance with sections 23(2), (3) and (4) of the London Regional Transport Act 1984 (the "Act") and as directed by the Secretary of State in his Direction, issued under sections 23(2) and (4) of the Act. The accounts are prepared under the historical cost convention, except as described in note 1(e) below, and in accordance with applicable accounting standards, save as directed.

b) Basis of accounting

The Group accounts incorporate the accounts of London Transport and its subsidiaries; such accounts are made up to 31 March. The Corporation's investments in subsidiaries are stated at cost. Cost is equal to the book value of assets transferred from the Corporation at 30 March 1985 or on the date of acquisition where later.

c) Sales revenue

Sales revenue comprises the value of sales of services or goods in the normal course of business (excluding Value Added Tax) and includes amounts receivable from the London Borough Councils and County Authorities in respect of free and reduced fare travel for the elderly and disabled. Revenue is recognised on an earned basis; revenue received in advance is spread over the period to which it relates.

d) Grants and other funding

Capital grants and contributions from third parties in respect of capital expenditure are held in the Balance sheet as deferred income and are released to the Profit and loss account over the expected economic useful lives of assets in line with the depreciation charge.

Grants in support of operations, after allowing for Public Private Partnership (PPP) restructuring grants and the release of deferred income to meet the depreciation charge, are credited to the Profit and loss account.

Grants received from Government are non-repayable.

e) Tangible fixed assets

Infrastructure, rolling stock, plant and equipment

These assets are carried at the estimated cost of modern equivalent assets as at 31 March 1998, together with the cost of subsequent additions, written down to reflect their remaining estimated useful economic lives.

Infrastructure consists of tunnels and embankments, stations, track, signalling, and property leased to outside contractors.

Bored tunnels, excavations for stations and embankments entering service prior to 1 April 1992 are carried in the Balance sheet at nil value as there are no records of their historical cost and it is impractical to provide a reliable valuation. Associated land is carried at vesting value at 1 January 1970, or at subsequent cost.

Other property

These assets consist of investment properties commercially let and capable of being separated from operational property (e.g. offices, shops, residential property and disused operational property awaiting disposal) and business properties occupied by the Group which are not limited in their future use by operational constraints or requirements and which are not integral to the infrastructure (e.g. offices).

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (continued)

Other property (continued)

These properties are valued at open market value as 31 March 2002 by the Managing Director of LT Property, Colin Smith, FRICS, in accordance with the Royal Institution of Chartered Surveyors' guidelines. Business properties are valued on an existing use basis. Investment properties are valued with additional consideration of alternative use. Sales of properties are recognised on the exchange of contracts and the net profit, after charging any related costs, is credited to Profit and loss account. Sales proceeds are used to contribute towards financing the Group's capital expenditure, and therefore the profit or loss (after taxation) arising is appropriated to Capital reserve.

Assets in course of construction

These assets are carried at cost and are not depreciated until they are available for customer service. They include expenditure on new and extended railway lines and major expansions to stations.

Depreciation

Assets are depreciated on a straight-line basis over their estimated useful lives, which are reviewed regularly, and which for the major categories fall in the following ranges:

Tunnels and embankments	up to 100 years	Bridges and viaducts	up to 100 years
Track	up to 50 years	Signalling	up to 40 years
Rolling stock	up to 50 years	Escalators and lifts	up to 40 years
Stations	up to 50 years	Other plant and equipment	up to 40 years

Leasehold properties are amortised over the lease term. In accordance with Statement of Standard Accounting Practice (SSAP) 19, investment properties are not depreciated. This is a departure from the Companies Act 1985 which requires all properties to be depreciated.

f) Stocks

Stocks consist primarily of materials required for the operation and maintenance of rolling stock, properties and infrastructure. These stocks are valued at cost less provision for obsolescence.

g) Insurance

The Group maintains certain insurance policies for damage to, and loss of, owned/third-party property and for its potential liabilities to employees and third parties. In addition, the Group selectively self-insures its exposures under the above and other headings. Provision is made for the estimated value of the Group's liability in respect of self-insured claims.

h) Pensions

The majority of employees are members of a defined benefit pension fund to which the Group contributes. The disclosures required by Financial Reporting Standard (FRS) 17 are given in note 6.

Ex-gratia payments are made to certain employees on retirement in respect of service prior to the establishment of pension funds for those employees. Supplementary payments are also made to the pensions of certain employees who retired prior to the index linking of pensions. The Group augments the pensions of certain employees who retire early under voluntary severance arrangements. The costs of providing pensions are recognised on a systematic basis and are charged to the periods benefiting from the employee's service. The difference between the charge to the Profit and loss account and the contributions paid is shown as an asset or liability in the Balance sheet.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (continued)

i) Deferred taxation

Provision is made for deferred taxation arising from temporary timing differences between profits or losses as computed for taxation purposes and profits or losses as stated in the accounts. The adoption of FRS 19 in the year has no material impact.

j) Operating Leases

Operating leases are expensed to the Profit and loss account on a straight line basis over the period of the lease.

2 GROUP SALES REVENUE AND PROFIT/(LOSS) BEFORE GRANT BY ACTIVITY

year ended 31 March	**Sales revenue 2002 £m**	Sales revenue 2001 £m	**Profit/(loss) before grants 2002 £m**	Profit/(loss) before grants 2001 £m
Continuing operations				
Rail operations	**1,216.1**	1,180.3	**(493.4)**	(297.8)
Property	**35.1**	41.4	**29.7**	34.4
Group services	**1.6**	1.4	**-**	(4.2)
	1,252.8	1,223.1	**(463.7)**	(267.6)
Discontinued operations				
Bus operations	**-**	104.3	**-**	(15.0)
Victoria Coach Station	**-**	1.7	**-**	0.3
River services	**-**	0.5	**-**	-
Museum	**-**	0.5	**-**	(1.0)
Group services	**-**	0.9	**-**	(7.0)
Dial-a-Ride	**-**	-	**-**	(3.1)
	-	107.9	**-**	(25.8)
Total sales revenue and operating loss before grants	**1,252.8**	1,331.0	**(463.7)**	(293.4)

Sales by revenue source

year ended 31 March	**2002 £m**	**% of total**	2001 £m	% of total
Traffic revenue				
Fares	**1,122.8**	**89.7**	1,182.1	88.8
Revenue in respect of free travel for older and disabled people	**27.7**	**2.2**	45.3	3.4
Other	**1.6**	**0.1**	0.9	0.1
	1,152.1	**92.0**	1,228.3	92.3
Other revenue				
Rents receivable	**35.1**	**2.8**	41.2	3.1
Commercial advertising receipts	**31.4**	**2.5**	31.4	2.4
Other	**34.2**	**2.7**	30.1	2.2
	100.7	**8.0**	102.7	7.7
Total sales revenue	**1,252.8**	**100.0**	1,331.0	100.0

NOTES TO THE ACCOUNTS

3 COST OF OPERATIONS AND EMPLOYEE NUMBERS

a) Cost of operations

year ended 31 March	**2002 £m**	2001 £m
Staff costs:		
Wages and salaries	**533.4**	488.0
Social security costs	**41.9**	39.6
Pension costs including augmentation	**62.0**	53.5
Voluntary severance	**-**	5.9
	637.3	587.0
Leasing and PFI charges	**203.5**	189.7
Energy	**35.7**	36.8
Materials and services	**961.8**	831.9
	1,838.3	1,645.4
Transferred to investment and third parties	**(465.4)**	(364.7)
Total cost of operations	**1,372.9**	1,280.7

b) Number of employees

year ended 31 March	**2002 Number**	2001 Number
Average number of employees:		
Rail operations	**17,777**	16,662
Other operations	**151**	178
Continuing operations	**17,928**	16,840
Discontinued operations	**-**	1,560
Group total	**17,928**	18,400
Actual number of employees at 31 March	**18,679**	17,129

4 ITEMS INCLUDED IN THE GROUP PROFIT AND LOSS ACCOUNT

The profit before taxation for the year is stated after allowing for the following amounts

year ended 31 March	**2002 £m**	2001 £m
Interest receivable	**(0.9)**	(1.7)
Interest payable	**-**	0.1
Auditors' remuneration for audit services	**0.3**	0.3
Auditors' remuneration for non-audit services	**0.9**	0.8

The non-audit remuneration paid to the auditors was principally for advice provided in respect of the PPP (£0.3 million) and PFI contracts (£0.6 million). The fees for the PFI advice were paid under a framework contract which had been competitively tendered.

NOTES TO THE ACCOUNTS

5 EMOLUMENTS OF THE MEMBERS OF THE BOARD

Executive and non-executive Board members are appointed by the Secretary of State and, unless otherwise stated, are on contracts that are terminable upon notice not exceeding six months. The Secretary of State determines Board members' emoluments, taking advice from the LT Chairman. Some executive Board members are entitled to varying annual performance bonuses (maximum of 20% of salary) based on actual performance achieved against predetermined key targets (including safety, quality of service, unit cost objectives and selected key tasks). Performance related bonuses shown below relate to performance in 2000/2001, a year in which only one Board member was contractually entitled to a bonus.

Sir Malcolm Bates served as Chairman until 8 May 2001 and from 17 July 2001. Mr R Kiley served as Chairman from 8 May 2001 to 17 July 2001.

	Date of expiry of current term	Salaries/ fees	Performance related bonus	Pension benefits	Other benefits	**Total emoluments 2001/02**	Total emoluments 2000/01
		£	£	£	£	**£**	£
Non-executive							
Brian Appleton		44,807	-	-	-	44,807	40,147
Kamlesh Bahl		20,354	-	-	-	20,354	19,571
Sir Malcolm Bates		42,224	-	-	-	42,224	40,600
Derek Higgs		20,354	-	-	-	20,354	19,571
Ed Wallis		24,527	-	-	-	24,527	19,571
Former Members							
Non-executive							
Sir Alan Bailey	30/06/00	-	-	-	-	-	4,893
Robert Kiley	17/07/01	-	-	-	-	-	-
David Newlands	8/05/01	4,566	-	-	-	4,566	27,399
Executive							
Derek Smith	19/12/01	106,365	8,120	15,698	20,943	151,126	228,859
Denis Tunnicliffe	31/08/00	-	-	-	-	-	117,010
Year ended 31 March 2002		**263,197**	**8,120**	**15,698**	**20,943**	**307,958**	517,621
Year ended 31 March 2001		411,291	17,177	61,000	28,153	517,621	

Accrued pension

	Annual pension	Increase in pension
	£	£
Derek Smith	7,576	1,576

NOTES TO THE ACCOUNTS

5 EMOLUMENTS OF THE MEMBERS OF THE BOARD (Continued)

Disclosure is made in respect of each Board member entitled to a final salary pension of:
- the pension benefit being the transfer value of the increase in accrued pension during the year, less his own contributions;
- the amount of annual pension, on attaining normal pension age, to which he would be entitled if he left the company at the year end or is entitled, having retired during the year; and
- the increase in that pension over the year excluding any inflationary increase.

Pension costs charged to Profit and loss account in respect of past Board members were £313,860 (2000/01 £237,350).

Mr E Wallis declared a possible interest in relation to the negotiation of contracts between London Underground and Metronet, one of the bidders for the PPP, in his capacity as a non-Executive Director and Chairman of Powergen Plc, whose new parent company in Germany were seeking to acquire Seeboard, a member of the Metronet consortium and Seeboard Powerlink, contractor to the Power PFI. In the light of this and from the date the German parent company expressed their intent, Mr E Wallis did not attend any London Underground or London Transport Board meetings (or meetings of Board Committees of which he is a member) and in effect placed himself in "quarantine". No papers or documentation concerning arrangements for the PPP or the Power PFI were provided to him in this period.

No other Board member had a material interest in any contract of significance with the Group.

6 PENSIONS

Whilst the Group continues to account for pension costs in accordance with SSAP 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are given.

The LRT Pension Fund, to which the Group contributes, is a final salary scheme established under trust. Its finances are, therefore, quite separate from those of the Group. The Fund's Trustee is the LRT Pension Fund Trustee Company Limited, a wholly owned subsidiary of London Transport. Under the rules of the Fund, its 18 Trustee Directors have for many years been nominated in equal numbers by London Transport and on behalf of the Fund's membership. Over 90% of the Group's staff are covered by the LRT Pension Fund. Transport *for* London and its subsidiaries also participate in the Fund and it is not possible to identify the Group's share of the underlying assets and liabilities.

The valuation at 31 March 2000 has been updated by the Actuary on a FRS 17 basis as at 31 March 2002. The major assumptions used in this valuation were:

Rate of increase in salaries	4.0%
Rate of increase in pensions in payment	2.5%
Discount rate	5.8%
Inflation assumption	2.5%

The assumptions used by the Actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

NOTES TO THE ACCOUNTS

6 PENSIONS (Continued)

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Expected rates of return	Value at 31 March 2002 £m
Equities	8.24%	2,219.9
Bonds	5.10%	996.0
Other – property	6.00%	46.5
Present value of scheme liabilities		(3,514.0)
Surplus/(deficit) in the scheme		(251.6)

London Transport is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 'Retirement benefits', when the reporting standard is fully adopted the scheme will be accounted for as if it were a defined contribution scheme.

In accordance with SSAP 24 the Fund's Actuary makes valuations and recommends the level of contributions to be made by the participating employees to ensure long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2000 by the Actuary, a partner of consulting actuaries Watson Wyatt, using the projected unit method.

The pension charge to the Profit and loss account in respect of the LRT Pension Fund for 2001/02 is the cost of the benefits, less the value of the actuarial surplus spread over the expected remaining service lives of current employees. Full provision of £11.7 million (2001 £15.0 million) for the difference between the SSAP 24 charge and the actual contributions paid to the Fund is made in these accounts (see note 17).

London Transport bears the cost of:
- augmentation of the pensions of certain employees, who retire early under voluntary severance arrangements;
- ex-gratia payments, which are made to certain employees on retirement in respect of service prior to the establishment of pension funds for those employees;
- pensions of those Board members who did not qualify to join the LRT Pension Fund;
- supplementary payments, which are made to certain employees who retired prior to index linking of pensions.

On the instruction of the LT Director of Pensions, his deputy, a Fellow of the Institute of Actuaries, carried out an actuarial valuation as at 1 April 2002 of the above unfunded pension liabilities, using a valuation basis consistent with that adopted by the Actuary to the LRT Pension Fund in his last valuation. Full provision of £34.1 million (2001 £34.6 million) for unfunded pension liabilities is made in these accounts (see note 17).

NOTES TO THE ACCOUNTS

6 PENSIONS (Continued)

The main actuarial assumptions on a SSAP 24 basis were:

at 31 March		**2000**	1997
		%	%
Pensionable pay		**4.50**	5.75
Pension increases	- existing members	**3.00**	4.00
	- new members	**3.00**	3.50
Discount rate		**5.30**	-
Inflation		**3.00**	4.00
Investment returns		**7.25**	8.25

Valuation on a SSAP 24 basis:

at 31 March	**2002**	2001
	£m	£m
Equities	**1,546**	1,492
Managed and unitised funds	**943**	1,100
Interest bearing and other investments	**771**	772
Total market value of assets	**3,260**	3,364

The present value of the scheme liabilities, valued on a SSAP 24 basis, has not been valued since 31 March 2000. At this date the scheme's surplus was valued at £46 million. The method used to value the scheme liabilities is such that any value placed on those liabilities, for on going funding purposes, at 31 March 2002 is likely to have fallen in line with the market value of the assets.

7 GOVERNMENT EXTERNAL FINANCE LIMITS AND GRANT

a) Grant funding available from Government

Government controls the level of grant given to the Corporation each year through the setting of an External Finance Limit (EFL). In 2001/02 the EFL was fully taken by the Corporation. The analysis of grant making up the EFL is shown below:

	2001/02 External Finance		2000/01 External Finance	
	Requirement	**Limit**	Requirement	Limit
	£m	**£m**	£m	£m
Grants received	**483.0**	**483.0**	315.2	315.2

NOTES TO THE ACCOUNTS

7 GOVERNMENT EXTERNAL FINANCE LIMITS AND GRANT (Continued)

b) Allocation of grants received from Government

year ended 31 March	*Note*	**2002 £ m**	2001 £ m
Grant disbursement towards third party assets		**-**	1.3
Reorganisation and restructuring costs		**23.5**	38.4
Total grant disbursements		**23.5**	39.7
Capital grant for additions to fixed assets	16	**339.4**	275.5
Grant in support of operations	7c	**120.1**	-
Grants received		**483.0**	315.2

Costs of reorganising and restructuring the LT Group of £23.5 million (2000/01 - £38.4 million) were funded by a Government grant.

c) Grants taken to the Profit and loss account

year ended 31 March	*Note*	**2002 £ m**	2001 £ m
Release of grant to meet the depreciation charge on the historical cost of depreciated fixed assets	16	**235.0**	253.0
Grant in support of operations	7b	**120.1**	-
Grants relating to operations		**355.1**	253.0

8 (LOSS)/PROFIT ON DISPOSAL OF ASSETS

year ended 31 March	*Note*	**2002 £ m**	2001 £ m
Net proceeds		**2.2**	106.2
Capital grants released	16	**145.0**	4.9
		147.2	111.1
Less net assets at net book value		**(164.7)**	(90.6)
(Loss)/Profit on disposal		**(17.5)**	20.5

NOTES TO THE ACCOUNTS

9 TANGIBLE FIXED ASSETS

	Infrastructure and other property	Rolling stock	Plant and equipment	Assets in course of construction	**Total**
	£m	£m	£m	£m	**£m**
a) Group					
Gross valuation					
Gross valuation at 1 April 2001	11,308.5	2,809.1	1,254.2	220.6	**15,592.4**
Additions to fixed assets	240.6	28.7	53.0	95.6	**417.9**
Disposals	(58.7)	(22.5)	(43.4)	(131.7)	**(256.3)**
Transfers	64.2	-	-	(64.2)	**-**
Revaluation	18.0	-	-	-	**18.0**
Gross valuation at 31 March 2002	**11,572.6**	**2,815.3**	**1,263.8**	**120.3**	**15,772.0**
Depreciation					
Balance at 1 April 2001	4,642.2	1,612.2	591.7	-	**6,846.1**
Disposals	(29.3)	(22.5)	(39.8)	-	**(91.6)**
Charge for the year	206.1	71.6	65.9	-	**343.6**
Balance at 31 March 2002	**4,819.0**	**1,661.3**	**617.8**	**-**	**7,098.1**
Net book value at 31 March 2002	**6,753.6**	**1,154.0**	**646.0**	**120.3**	**8,673.9**
Net book value at 31 March 2001	6,666.3	1,196.9	662.5	220.6	8,746.3
b) Corporation					
Net book value at 31 March 2002	**-**	**-**	**-**	**-**	**-**
Net book value at 31 March 2001	-	-	-	-	-

c) Infrastructure and other property

Infrastructure and other property excludes bored tunnels, excavations for stations and embankments entering service prior to 1 April 1992 which are carried in the Balance sheet at nil value. Land and buildings are under freehold ownership. Infrastructure and other property includes investment properties with a value of £141.4 million (2001 £130.0 million).

d) Rolling stock, plant and equipment

Rolling stock, plant and equipment include £96.1 million (2001 £67.4 million) of partially complete assets.

NOTES TO THE ACCOUNTS

9 TANGIBLE FIXED ASSETS (continued)

e) Assets in course of construction

At 31 March 2001 Assets in course of construction included development expenditure on CrossRail of £134.8m. During the year, Cross-London Rail Links Limited (CLRL), a joint venture between T*f*L and the Strategic Rail Authority was set up to progress the CrossRail projects. The CrossRail assets owned by LUL are to be licensed to CLRL, and accordingly have been written down to nil, except for properties which have an alternative use which have been transferred to other property.

f) Historical cost of assets

The historical cost of assets includes all investment expenditure since 1970 and the book value transferred, when the predecessor to London Transport was formed.

	Group	
	2002	2001
	£m	£m
Infrastructure and other property	**6,640.9**	6,363.2
Rolling stock	**1,569.0**	1,542.5
Plant and equipment	**922.2**	907.1
Assets in course of construction	**120.3**	220.6
Gross cost	**9,252.4**	9,033.4
Less accumulated depreciation	**(2,033.6)**	(1,785.1)
Net written down cost	**7,218.8**	7,248.3

10 INVESTMENT IN SUBSIDIARIES

	Corporation	
	2002	2001
	£m	£m
At 1 April	**466.1**	470.6
Additions	**-**	21.0
Transfers to subsidiaries	**-**	(3.0)
Transfers to Transport *for* London	**-**	(22.5)
At 31 March	**466.1**	466.1

11 STOCKS

	Group		Corporation	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Maintenance	**17.5**	18.5	**-**	-
Fuel	**1.7**	1.4	**-**	-
	19.2	19.9	**-**	-

NOTES TO THE ACCOUNTS

12 DEBTORS

	Group		Corporation	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Trade debtors	**114.5**	91.8	**42.8**	46.6
Amounts due from Transport *for* London	**61.5**	43.7	**32.6**	32.6
Amounts due from subsidiary undertakings	**-**	-	**35.8**	32.3
Prepayments and accrued income	**44.9**	50.9	**-**	-
	220.9	186.4	**111.2**	111.5

13 CASH AT BANK AND IN HAND

	Group		Corporation	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Deposits repayable on demand	**2.2**	1.9	**-**	-
Cash at bank	**2.4**	1.3	**-**	0.2
Cash in hand and in transit	**13.6**	10.2	**0.1**	-
	18.2	13.4	**0.1**	0.2

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Corporation	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Trade creditors	**204.7**	130.1	**0.2**	-
Capital works	**181.9**	243.7	**-**	-
Amounts due to Transport *for* London	**140.3**	130.5	**-**	-
Salaries and wages	**31.0**	26.8	**-**	-
National Insurance, PAYE and pensions	**20.9**	30.6	**-**	-
Rentals in advance	**-**	7.6	**-**	-
Total creditors excluding borrowings	**578.8**	569.3	**0.2**	-
Bank overdrafts	**18.1**	13.3	**0.1**	0.2
Total creditors falling due within one year	**596.9**	582.6	**0.3**	0.2

NOTES TO THE ACCOUNTS

15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Corporation	
	2002	2001	**2002**	2001
	£ m	£ m	**£ m**	£ m
Other creditors	**2.1**	-	-	-
Receipts in advance	**21.1**	11.9	-	-
	23.2	11.9	-	-

16 DEFERRED GRANTS

		Group		Corporation	
		2002	2001	**2002**	2001
	Note	**£ m**	£ m	**£ m**	£ m
At 1 April		**5,370.4**	5,508.9	-	97.4
Capital grant received from Government	7b	**339.4**	275.5	-	-
Third-party contributions and other grant funding		**83.9**	0.6	-	-
Transfer to subsidiaries		**-**	-	-	(97.4)
Third party contribution transferred to provisions	17	**(84.0)**	-	-	-
Released to Profit and loss account:					
- to meet the depreciation charge	7c	**(235.0)**	(253.0)	-	-
- on disposal of tangible fixed assets	8	**(145.0)**	(4.9)	-	-
- on disposal of subsidiaries		**-**	(156.7)	-	-
At 31 March		**5,329.7**	5,370.4	-	-

17 PROVISIONS FOR LIABILITIES AND CHARGES

	At 1 April 2001 £ m	Payments in year £ m	Increase in provision £ m	**At 31 March 2002 £ m**
Group				
SSAP 24 pension provision	15.0	(61.6)	58.3	**11.7**
Unfunded pension liabilities	34.6	(3.1)	2.6	**34.1**
Claims for compensation	22.1	(12.3)	10.7	**20.5**
Third party contribution	-	-	89.0	**89.0**
Other provisions	5.7	(0.2)	6.0	**11.5**
	77.4	(77.2)	166.6	**166.8**
Corporation				
Unfunded pension liabilities	23.6	(2.2)	1.7	**23.1**
	23.6	(2.2)	1.7	**23.1**

NOTES TO THE ACCOUNTS

17 PROVISIONS FOR LIABILITIES AND CHARGES (Continued)

SSAP 24 pension provision and unfunded pension provision
Details of these provisions are given in note 6.

Claims for compensation
Contractual and employee claims are provided for at the Board's best estimate of the likely outcome.

Third party contribution
The Jubilee Line Extension was in part funded by a contribution from Canary Wharf Limited (CWL) which was subject to certain performance conditions being fulfilled. Formal Expert Determination in December 2001 indicated a marginal shortfall against the required technical criteria and the provision represents the Board's best estimate of the amount which may be paid to CWL. Negotiations with CWL are continuing. Of the provision, £5.0 million has been charged to Cost of operations and £84.0 million is a transfer from Deferred income.

Other provisions
Other provisions relate to the closure of one of the group's power generating stations and to dilapidations on full repairing leases.

18 CORPORATE CAPITAL AND RESERVES

	Note	Profit and loss account £m	Vested capital £m	Capital reserve £m	Revaluation reserve £m	Total £m
Group						
At 1 April 2001		13.6	164.6	677.6	2,067.9	2,923.7
Transfer to Profit and loss account		65.4	-	(65.4)	-	-
Realisation of accumulated revaluation surplus		60.7	-	-	(60.7)	-
Revaluation of tangible fixed assets	9a	-	-	-	18.0	18.0
Loss for the year		(126.1)	-	-	-	(126.1)
At 31 March 2002		**13.6**	**164.6**	**612.2**	**2,025.2**	**2,815.6**
Corporation						
At 1 April 2001		5.3	164.6	365.3	18.8	554.0
Transfer to Profit and loss account		-	-	-	-	-
Realisation of accumulated revaluation surplus		-	-	-	-	-
Result for the year		-	-	-	-	-
At 31 March 2002		**5.3**	**164.6**	**365.3**	**18.8**	**554.0**

NOTES TO THE ACCOUNTS

19 CAPITAL COMMITMENTS

	Group	
	2002	2001
	£m	£m
In respect of contracts placed	**241.1**	116.3

The Corporation has no capital commitments.

20 FINANCIAL COMMITMENTS AND CONTINGENCIES

a) Operating leases

Under the Government's PFI initiative, agreements have been entered into for the provision by the private sector of a new fleet of trains for the Northern Line (together with associated equipment), a new communications network, a new ticketing system, new facilities for the British Transport Police and upgraded high-voltage power generation and distribution systems. Given the substantial risks retained by the private sector, these transactions are accounted for as operating leases and the assets provided are, therefore, not included in the Balance sheet. The PFI charges of £200.1 million (2000/01 £159.6 million) are charged to cost of operations.

The Group has also entered into operational leases in respect of motor vehicles. The total rental included in the Profit and loss account was £3.5 million (2000/01 £3.4 million). These lease agreements, which cover the cost of routine maintenance and repairs, are charged to the Profit and loss account over the period of the lease.

The Group leases certain property on short-term and long-term leases. The rents payable on these leases were £26.5 million (2000/01 £26.7 million). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays for all insurance, maintenance and repairs of these properties.

The total estimated amount payable under property leases, PFI agreements (including related services) and other non-cancellable operating leases analysed by the period of expiry, is shown below:

	Group		Corporation	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Property leases expiring:				
Within one year	**0.4**	0.2	**-**	-
Between one and five years	**-**	0.6	**-**	-
Thereafter	**26.1**	25.7	**-**	-
	26.5	26.5	**-**	-
PFI agreements and other leases expiring:				
Within one year	**-**	-	**-**	-
Between one and five years	**2.1**	2.0	**-**	-
Thereafter	**176.4**	157.1	**46.9**	40.2
	178.5	159.1	**46.9**	40.2

NOTES TO THE ACCOUNTS

20 FINANCIAL COMMITMENTS AND CONTINGENCIES

b) Contingencies

There are a number of uncertainties surrounding the Jubilee Line Extension, PFI contracts and other major projects, including claims in the course of negotiations, that may affect the financial outcome of these projects. The financial statements include management's best estimate of the outcome of the uncertainties.

21 TAXATION

The Corporation and its subsidiaries are assessable individually to taxation in accordance with the Income and Corporation Taxes Act. No liability for Corporation tax arises in respect of the current year.

The Group has a deferred tax asset in respect of capital allowances and losses brought forward. No deferred tax asset is accounted for, as the Group does not believe that such an asset would be recoverable in the foreseeable future.

	2002	2001
	£m	£m
Gross timing differences due to capital allowances after grants	**74.5**	12.9
Cumulative tax losses	**24.8**	24.8
Total	**99.3**	37.7

22 RELATED PARTIES

All Executive and Non-Executive Board members are appointed by the Secretary of State, as explained in Note 5. The Corporation is therefore controlled by Government and is also funded by way of Government grant.

The Corporation has had no material transactions during the year with related parties other than with group companies and those subsidiaries transferred to Transport *for* London. The Corporation has taken advantage of the exemption from disclosing transactions with other group companies.

23 PRINCIPAL SUBSIDIARIES OF THE CORPORATION

	Ownership	Activity
London Underground Limited	100%	Passenger transport by rail
Infraco BCV Limited	100%	Railway engineering
Infraco JNP Limited	100%	Railway engineering
Infraco Sub-Surface Limited	100%	Railway engineering

Shares in the Infraco subsidiaries are held by London Underground Limited.

On 3 July 2000, Transport Trading, together with its subsidiaries, London Bus Services, Victoria Coach Station and London River Services, transferred to Transport *for* London.

NOTES TO THE ACCOUNTS

24 POST BALANCE SHEET EVENT

On 8 May 2002, London Underground Limited signed Share Purchase Agreements to transfer the ownership of its Infraco subsidiaries. Completion of this transfer is dependent on certain conditions being met, including approval by HMRI of the Safety Case (version 3.1), which was received on 10 July 2002. Consideration will also be given to the outcome of the judicial review sought by the Mayor and Transport *for* London.

25 GROUP CASH FLOW STATEMENT: RECONCILIATION WITH THE ACCOUNTS

	Operating activities £m	Capital expenditure £m	Sales of fixed assets £m	Other funding £m	Contribution transferred £m	Balance sheet movement £m
Amounts included in the accounts	(463.7)	(417.9)	2.2	83.9	(84.0)	
Depreciation	343.6	-	-	-	-	
Increase in stocks	0.7	-	-	-	-	0.7
Decrease/(increase) in debtors	(10.0)	11.0	-	(35.5)	-	(34.5)
Increase/(decrease) in creditors due within one year	71.3	(61.8)	-	-	-	9.5
Increase/(decrease) in creditors due after more than one year	2.3	(9.8)	18.8	-	-	11.3
Increase in provisions for liabilities and charges	5.4	-	-	-	84.0	89.4
Group cash flow statement	**(50.4)**	**(478.5)**	**21.0**	**48.4**	**-**	

26 ANALYSIS OF CHANGE IN NET FUNDS

	Note	At 31 March 2001 £m	Movement £m	At 31 March 2002 £m
Cash at bank and in hand	13	13.4	4.8	18.2
Bank overdrafts	14	(13.3)	(4.8)	(18.1)
Total cash		0.1	-	0.1
Short-term deposits		-	-	-
Total of net funds		**0.1**	**-**	**0.1**

27 PAYMENT OF SUPPLIERS

Appropriate terms and conditions are agreed with suppliers. These range from standard terms to individually negotiated contracts, for example large civil engineering contracts. Payment is made in accordance with those terms and conditions, provided that the supplier has also complied with them. The average number of days supplies owed to creditors at the year end stood at 39 days (2001 - 42 days). This is calculated from the energy, materials and services invoiced in the year and the invoices outstanding at the year end.

SUMMARISED ACCOUNTS: LONDON UNDERGROUND

Profit and loss account

year ended 31 March	**2002 £ m**	2001 £ m
Sales revenue	**1,251.2**	1,229.4
Cost of operations	**(1,371.3)**	(1,156.2)
Gross operating margin	**(120.1)**	73.2
Depreciation	**(343.6)**	(340.8)
Operating loss before grants	**(463.7)**	(267.6)
Grants taken to the Profit and loss account	**355.1**	250.7
Operating loss after grants	**(108.6)**	(16.9)
(Loss)/profit on disposal of assets	**(17.5)**	20.3
Taxation - group relief	**-**	(23.5)
Loss for the year	**(126.1)**	(20.1)
Realisation of accumulated revaluation surplus	**60.7**	79.8
Transfer to capital reserve	**65.4**	(59.7)
Retained profit for the year	**-**	-

Balance sheet

at 31 March	**2002 £ m**	2001 £ m
Fixed assets	**8,673.9**	8,746.3
Net current liabilities	**(449.7)**	(474.5)
Total assets less current liabilities	**8,224.2**	8,271.8
Creditors falling due after more than one year	**(23.2)**	(11.9)
Provisions for liabilities and charges	**(143.7)**	(53.8)
Deferred grants	**(5,329.7)**	(5,370.4)
Net assets	**2,727.6**	2,835.7
Total capital employed	**2,727.6**	2,835.7

The above results for both periods have been extracted from the accounts of London Underground Limited. Sales revenue and cost of operations include inter-company trading, which is eliminated on consolidation. Net current liabilities include inter-company balances.

STATISTICS: LONDON UNDERGROUND

	Actual	Target
Operational performance		
Excess journey times (minutes)	**3.44**	3.63
Kilometres operated (millions)	**65.4**	65.6
Customer satisfaction (score)		
Train service	**75**	75
Safety and security	**78**	80
Staff helpfulness and availability	**69**	69
Cleanliness	**68**	67
Information	**76**	77
Investment		
Project Expenditure (£millions)	**429**	410
Project Delivery:		
Track renewals (kilometres)	**24.0**	19.5
Station upgrades (number)	**5**	5
Escalator refurbishments (number)	**31**	20

year ended 31 March	**2002**	2001
	£	£
Operating costs per train kilometre operated	**21.0**	18.1
Accidents to passengers, public and employees	**Number**	Number
Fatalities to passengers/public	**8**	7
Major injuries to passengers/public	**114**	137
Fatalities to employees/contractors	**-**	1

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